Testimony opposing HB 3123

April 3, 2019

House Committee on Rules
Oregon State Legislature

Chair Holvey and Members of the committee:

For the record, my name is Claire Hertz and I serve as Deputy Superintendent of Business and Operations for Portland Public Schools. I have spent more than 25 years in school district finance, and I am here today to share my opposition of HB 3123. We are very concerned that this bill would put a 'chill' on our ability to take advantage in the future of opportunities presented by pension bonds.

Pension bonds have been a critical source of financial savings for PPS and many other districts over the years. Portland issued over $491 million in pension bonds, and as of the 2017 valuation, has saved over $225 million versus doing nothing. Our payroll rates, even including the amount associated with debt service, have been consistently and substantially lower than for school districts that did not issue bonds.

As of the 2017 valuation, the most recent information available from PERS, our side account was worth $588 million, nearly $100 million more than the amount we borrowed back in 2002 and 2003.

At each point prior to selling our pension bonds, PPS, along with all of the school districts who participated in the pools to sell the bonds, retained ECONorthwest to prepare a Monte Carlo model providing projections of the probability of success of this strategy. We also received voluminous documentation of the pros and cons from PERS, OSBA and our bond underwriter.

We recognize that issuing bonds of this type are risky. However, while we agree wholeheartedly that obtaining objective information on the risks associated with pension bonds is appropriate prior to entering into one, we reject the notion that the Legislature should require such a practice as yet another unfunded mandate.

Further, the type of expertise the bill requires – that of an "Independent Registered Municipal Advisor" – would not provide the type of information we really need. The key risks associated with a pension bond are in the investment of funds with PERS and the likelihood that they will return 'positive arbitrage' over the yield of the bonds. Municipal Advisors are experts in municipal bond offerings, not in pension fund investing, so we would likely then have to retain an economics firm as well to get the key information that helps our school board make its decisions.

More troubling than that is the requirement that the municipal advisor provide an assessment of the 'advisability' of issuing pension bonds. IRMAs are regulated by the SEC and carry high levels of fiduciary responsibility. We have been advised by our IRMA – yes, we have one – that such a requirement would carry so much potential liability that they are not certain they would be willing to provide this service. And if they did, it would come at considerable cost, and likely not offer the kind of information we really need to make an informed decision.

In summary, we believe this bill is an unnecessary, unfunded mandate that may eliminate the only tool that is available to local governments to reduce our PERS costs. We have used these types of programs very successfully <u>and</u> prudently in the past, and respectfully request that you not limit our ability to utilize such a tool in the future. PPS began amortizing principal within a year of issuance, as did the overall pool in which we participated in 2002 and 2003. We'd be happy to stop issuing pension bonds if you would take the UAL off our hands. Short of that, please do not remove the only remaining tool we have.

Thank you.